Research Update:

Hawley, MN Series 2026A GO Improvement Bonds Rated 'AA'; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Hawley, Minnesota's $3.45 million series 2026A general obligation (GO) improvement bonds.
- At the same time, we affirmed our 'AA' long-term rating on the city's existing GO debt.
- The outlook is stable.

Rationale

Security

The city's full faith and credit and ability to levy direct general ad valorem taxes without limitation as to rate or amount secures the bonds. The city is also pledging revenue from special assessments against benefited properties, but given the city's general creditworthiness reflected in the 'AA' long-term rating, we consider the GO the stronger pledge. The city's GO debt outstanding carries other pledged revenue sources similar to the series 2026A bonds, but the credit rating in these instances also reflects the GO.

Proceeds will be used for street, water, and sewer infrastructure enhancements.

Credit highlights

The rating reflects the strength of Hawley's local economy, which is driven by its proximity to the Fargo-Moorhead metro area and its robust available fund balances as a percentage of revenues; this helps provide a buffer to potential volatility in its nominally small budget. We expect that ongoing residential and industrial development in the area will continue to support tax base growth and economic stability. Despite these strengths, the small population and elevated debt and liabilities profile remain potential sources of credit pressure.

Although the city reported a $233,000 deficit in fiscal 2024 (12.3% of general fund revenue), we consider the negative results to be overstated due to the impact of one-time capital outlay. Building on the surplus results in 2025, management expects the city to maintain a positive financial trajectory and anticipates outperforming the balanced budget in fiscal 2026, ending the year with a modest surplus. We expect the city to continue to build its unassigned fund balance in

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the coming years, with positive operations supported by a growing residential and industrial tax base.

The rating further reflects our view of the following credit factors:

- Economic growth prospects are bolstered by Hawley's proximity and access to Fargo, which has contributed to ongoing residential demand and development, as well as significant commercial and industrial buildout. Management anticipates that the recent annexation of an industrial corridor south of I-10 will result in material tax base growth. We view the sound incomes relative to the national and county averages and the positive demographic trends at the local and county levels as positive factors in our assessment of the local economy.
- Operating results are expected to remain positive, as we anticipate performance will remain in line with management's expectations given the strength of the tax base and the pace of ongoing development. Although the cash-basis reserves are somewhat lower than those of peers on a nominal basis, they compare very favorably as a percentage of revenues, which we believe provides sufficient buffer to offset some of the risk posed by the nominally small budget.
- Management maintains conservative budgetary assumptions and monitors budget-to-actual performance on a monthly basis. Management follows state guidelines on investment and debt management and maintains regular reporting of investment holdings and earnings. The city has a formal fund balance policy to maintain a minimum of six months of operating expenses in unassigned fund balance, which it has historically exceeded. We view Hawley's cyber risk mitigation measures as consistent with our view of its credit fundamentals.
- A somewhat elevated debt burden relative to peers that we do not expect to increase materially in the near term. Management indicates that the city may issue up to $700,000 in additional debt in the near term, which we have incorporated into our analysis. Also mitigating debt pressure is the city's limited exposure to pension and other postemployment benefits (OPEB) liabilities, with low per capita net pension liabilities and current retirement-benefit costs that, while growing, will likely remain a small share of the city's budget.
- Although most rated cities report on a modified accrual basis, Hawley uses cash accounting, which we view as a transparency limitation. For more information on our institutional framework assessment for Minnesota, see "Institutional Framework Assessment: Minnesota Local Governments," Sept. 10, 2024.
- Although physical risks are relevant for the local government sector, we consider Hawley's exposure to natural hazards low compared with national peers and in a nominal sense, and therefore not a material factor in our credit analysis.

Outlook

The stable outlook reflects our view of the city's economic strength and sound reserve position that we do not expect will deteriorate over our two-year outlook horizon.

Downside scenario

We could lower the rating if volatility in the city's nominally small budget leads to challenges in maintaining balanced-to-positive operations, causing performance to moderate or reserves to deteriorate to levels that we consider nominally low. We could also consider a negative rating action if the debt profile worsens or growth wanes.

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Upside scenario

Although unlikely, we could raise the rating if economic metrics improve significantly, management adopts more robust financial management policies and practices, and available fund balances rise to levels comparable with those of higher rated peers.

Hawley, Minnesota--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.44
Economy	3.5
Financial performance	1
Reserves and liquidity	1
Management	2.70
Debt and liabilities	4.00

Hawley, Minnesota--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	--	--	48	49
County PCPI as % of U.S.	--	--	75	76
Market value ($000s)	270,000	245,054	239,150	215,000
Market value per capita ($)	116,530	105,763	104,023	93,519
Top 10 taxpayers as % of taxable value	21.1	--	--	21.9
County unemployment rate (%)	3.8	3.4	2.6	2.2
Local median household EBI as % of U.S.	--	122	120	120
Local per capita EBI as % of U.S.	--	106	108	108
Local population	--	2,317	2,299	2,299
Financial performance				
Operating fund revenue ($000s)	--	1,999	1,900	1,746
Operating fund expenditures ($000s)	--	1,876	2,305	1,701
Net transfers and other adjustments ($000s)	--	325	172	(90)
Operating result ($000s)	--	448	(233)	(45)
Operating result as % of revenue	--	22.4	(12.3)	(2.6)
Operating result three-year average %	--	2.5	(2.2)	(11.9)
Reserves and liquidity				
Available reserves as % of operating revenue	--	114.7	84.1	104.9
Available reserves ($000s)	--	2,292	1,598	1,832
Debt and liabilities				
Debt service cost as % of revenue	--	22.9	26.9	28.9
Net direct debt per capita ($)	4,026	2,604	2,963	3,298
Net direct debt ($000s)	9,329	6,033	6,812	7,582
Direct debt 10-year amortization (%)	61	79	75	--
Pension and OPEB cost as % of revenue	--	3.9	4.5	3.8
NPLs per capita ($)	--	352	366	521
Combined NPLs ($000s)	--	816	842	1,197

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Hawley, Minnesota--key credit metrics

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Ratings List	
New Issue Ratings	
US$3,450,000 City of Hawley, Minnesota, General Obligation Improvement Bonds, Series 2026A, dated: November 16, 2026, due: November 1, 2046	
Long Term Rating	AA/Stable
Ratings Affirmed	
Local Government	
Hawley, MN Unlimited Tax General Obligation and Special Assessments	AA/Stable
Hawley, MN Unlimited Tax General Obligation, Special Assessments, Water System Revenue and Storm Water System Revenue	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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